

**REPORT OF THE AUDIT OF THE  
BOYLE COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tony Wilder, Boyle County Judge/Executive  
Honorable LeeRoy Hardin, Boyle County Sheriff  
Members of the Boyle County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Boyle County, Kentucky, for the year ended December 31, 2004.

We engaged Percy and Gray, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Boyle County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE BOYLE COUNTY SHERIFF**

**For The Year Ended  
December 31, 2004**

Peercy and Gray, PSC has completed the Boyle County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$4,533 from the prior year, resulting in excess fees of \$15,782 as of December 31, 2004. Revenues increased by \$41,226 from the prior year and expenditures increased by \$45,759.

#### **Report Comments:**

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

As of January 16, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$102,016 of public funds uninsured and unsecured.



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## **PEERCY AND GRAY, PSC**

**Certified Public Accountants**

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The Honorable Tony Wilder, Boyle County Judge/Executive  
Honorable LeeRoy Hardin, Boyle County Sheriff  
Members of the Boyle County Fiscal Court

### Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Boyle County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Tony Wilder, Boyle County Judge/Executive  
Honorable LeeRoy Hardin, Boyle County Sheriff  
Members of the Boyle County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Boyle County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Percy and Gray, PSC".

Percy and Gray, PSC

Audit fieldwork completed -  
September 9, 2005

BOYLE COUNTY  
LEEROY HARDIN, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Grants		\$	8,997
State - Kentucky Law Enforcement Foundation Program Fund			26,001
State Fees For Services:			
Finance and Administration Cabinet	\$	34,979	
Sheriff Security Service		25,057	
Cabinet For Human Resources		<u>380</u>	60,416
Circuit Court Clerk:			3,010
Fiscal Court			20,589
County Clerk - Delinquent Taxes			782
Commission On Taxes Collected			356,964
Fees Collected For Services:			
Auto Inspections	\$	5,560	
Accident and Police Reports		274	
Serving Papers		27,920	
Sheriffs Advertising Fees		2,441	
Executions		4,251	
Carrying Concealed Deadly Weapon Permits		<u>4,659</u>	45,105
Other:			
Tax Penalty Fees	\$	37,049	
Miscellaneous		<u>479</u>	37,528
Interest Earned			190
Borrowed Money:			
State Advancement	\$	145,314	
Fiscal Court Advance		<u>60,000</u>	<u>205,314</u>
Total Revenues		\$	764,896

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY  
 LEEROY HARDIN, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	301,586	
Other Salaries		22,475	
Overtime		36,363	\$ 360,424

Employee Benefits-

Employer's Share Retirement			4,720
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Contracted Services-

Advertising	\$	149	
Vehicle Maintenance and Repairs		3,566	3,715

Materials and Supplies-

Office Materials and Supplies	\$	7,901	
Uniforms		5,556	13,457

Auto Expense-

Gasoline	\$	23,257	
Maintenance and Repairs		7,526	
Transport Prisoners		7,048	37,831

Other Charges-

Conventions and Travel	\$	1,260	
Radio Maintenance		2,945	
Postage		4,328	
Executions		2,590	
Utilities		9,211	
Fiscal Court Fees		12,045	
Carrying Concealed Deadly Weapon Permits		1,819	
Miscellaneous		5,985	40,183

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY  
 LEEROY HARDIN, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Equipment		16,970
Debt Service:		
State Advancement	\$ 145,314	
Fiscal Court Advance	<u>60,000</u>	205,314
Total Expenditures		<u>682,614</u>
Net Revenues	\$ 82,282	
Less: Statutory Maximum	<u>64,953</u>	
Excess Fees	\$ 17,329	
Less: Training Incentive Benefit	<u>1,547</u>	
Excess Fees Due County for 2004	\$ 15,782	
Payments to Fiscal Court - July 5, 2005	<u>15,775</u>	
Balance Due Fiscal Court at Completion of Audit	<u>\$ 7</u>	

The accompanying notes are an integral part of this financial statement.

BOYLE COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BOYLE COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of January 16, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$102,016 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of January 16, 2004.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Uncollateralized and uninsured	<u>102,016</u>
Total	<u><u>\$ 202,016</u></u>

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## COMMENTS AND RECOMMENDATIONS



BOYLE COUNTY  
LEEROY HARDIN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

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On January 16, 2004, \$102,016 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). We recommend the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee; and (c) an official record of the depository institution.

*Sheriff's Response: Will contact the Bank to get set up.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited operations for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He should document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any differences should be reconciled. The Sheriff should document this by initialing the quarterly financial report.
- The Sheriff should periodically compare invoices to payments. The Sheriff should document this by initialing the invoices.

BOYLE COUNTY  
LEEROY HARDIN, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2004  
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:  
(Continued)

The Sheriff's Office Lacks Adequate Segregation Of Duties (Continued)

- The Sheriff should periodically compare the bank reconciliation to the bank balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff's Response: None*

PRIOR YEAR:

No Comments

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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**Certified Public Accountants**

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The Honorable Tony Wilder, Boyle County Judge/Executive  
Honorable LeeRoy Hardin, Boyle County Sheriff  
Members of the Boyle County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Boyle County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 9, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Boyle County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Boyle County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

Audit fieldwork completed -  
September 9, 2005



